

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

San Diego Gas & Electric Company,
Complainant,

Docket No. EL00-95-045

v.

Sellers of Energy and Ancillary Services
Into Markets Operated by the California
Independent System Operator and the
California Power Exchange,
Respondents.

Investigation of Practices of the California
Independent System Operator and the
California Power Exchange

Docket No. EL00-98-042

NOTICE REQUESTING COMMENT ON
METHOD FOR DETERMINING NATURAL GAS PRICES
FOR PURPOSES OF CALCULATING REFUNDS

(August 13, 2002)

1. In light of Commission Staff findings contained in an initial Staff report publicly released concurrently with this notice,¹ the Commission seeks comments on whether it should change the method for determining the cost of natural gas in calculating the mitigated market-clearing price (MMCP) in the ongoing California refund proceeding in the above-captioned dockets, and, if so, what method should be used.

2. On July 25, 2001, the Commission issued an order establishing the scope of and methodology for calculating refunds related to transactions in the spot markets operated by the California ISO and PX.² The California refund proceeding is currently pending before an administrative law judge. The California refund proceeding employs a rate

¹Fact-Finding Investigation of Potential Manipulation of Electric and Natural Gas Prices, Initial Report on Company-Specific Separate Proceedings and Generic Reevaluations; Published Natural Gas Price Data; and Enron Trading Strategies, Docket No. PA02-2-000, August , 2002. This report is available on the Commission's website at: <http://www.ferc.gov/electric/bulkpower/pa02-2/pa02-2.htm>

²San Diego Gas & Electric Co., et al., 96 FERC 61,120 (2001), order on clarification and reh'g, 97 FERC ¶ 61,275 (2001).

formula for calculating the MMCP (and resulting refunds) that relies on published natural gas spot prices in California or at the California border (California delivery points).

3. In its initial report, Commission Staff has concluded, among other things, that historically, the spot prices for natural gas at the California delivery points highly correlate with prices at producing basins and Henry Hub. During the months of October 2000 to July 2001 – the refund period in the California refund proceeding – the correlation was abnormally low. Since that time, the high correlation has resumed. Given this abnormal correlation for this isolated period, Staff attempted to independently verify the price data. Staff concluded that the data cannot be independently verified by the Commission to assure that they are statistically valid, reliable and free from the effects of price manipulation. Staff has therefore concluded that the reported prices are not appropriate for the Commission to use in computing the MMCP in the California refund proceedings. Staff indicates that, while there may be other alternatives, it examined two substitute gas mechanisms in detail and has recommended that the Commission use a substitute based on the spot price for natural gas in certain production basins plus the regulated cost of transportation. An uplift would be permitted for unaffiliated gas costs that exceed the input used for MMCP. This uplift will also capture some measure of scarcity.

4. In light of Staff's conclusions on the cost of natural gas for purposes of determining refunds, and the extent to which implementation of these conclusions could affect the amount of refunds ultimately required in this proceeding, the Commission finds it appropriate to allow comment by parties on this issue before the Commission takes further action. Specifically, we seek comments on whether the Commission should change the method that is used to determine the cost of natural gas for purposes of calculating refunds in this proceeding, and, if so, what method should be used. Is Staff's recommended substitute method appropriate? If not, what method should be used instead? And, what is an appropriate way to account for scarcity?

5. Any party in this proceeding wishing to comment on this issue must file comments within thirty days of the date of this order.

By direction of the Commission.

(S E A L)

Linwood A. Watson, Jr.,
Deputy Secretary.